Section III

Federal Award Findings and Questioned Costs

Department of Education

Introduction

Article IX of the Colorado Constitution places responsibility for the general supervision of the State's public schools with the Colorado State Board of Education (the Board). The Department of Education is directed by the Commissioner of Education and serves as the administrative arm of the Board, providing assistance to local education agencies and implementing administrative rules. The Department's mission is to "provide leadership and service to Colorado's education community and, through collaboration with this community, to promote high quality learning environments, high academic performance standards, and equitable learning opportunities for all Colorado's diverse learners."

The Department's mission is carried out by the following units:

- **Office of the Commissioner.** Provides for state-level leadership of public education in Colorado, as well as the administrative support services of the Department.

- **Educational Services.** Develops and improves the administrative capabilities of local school districts, as well as provides for the accreditation process of the school districts.

- **Management, Budget, and Planning**. Manages all resources for the Department, both financial and human resources.

- **Professional Services**. Administers the Educator Licensing program and the Professional Education program for the Department.

- **Special Services**. Ensures the provision of services to traditionally under-served populations including low-income children, children with disabilities, migrant children, preschoolers and infants, and children at risk of dropping out of school or being expelled. Special Services also oversees the programs at the Colorado School for the Deaf and the Blind.

- **State Library and Adult Education**. Oversees programs that aim to provide leadership in adult education and library communities and to develop, promote, and deliver lifelong learning opportunities.

- **Colorado School for the Deaf and the Blind**. Provides comprehensive educational services to students who are deaf and/or blind.

The following comment was prepared by the public accounting firm of KPMG LLP, who performed audit work at the Department of Education.

During our audit we found the Department, in general, has satisfactory internal control over the administration of federal programs and financial processes in accordance with the requirements of the Single Act Amendments of 1996 and the Office of Management and Budget Circular A-133. We identified one area where control could be further improved—formalizing the subrecipient monitoring process.

Develop a Formal Plan for Monitoring Subrecipients of Federal Funds

The Single Audit Act Amendments of 1996 (the Amendments) changed the threshold for requiring audits of recipients of federal funds and clarified the responsibility that recipients of federal awards have for monitoring entities to which they pass federal funds. The Department has not yet altered its subrecipient monitoring procedures in response to the Amendments.

The U.S. Office of Management and Budget Circular A-133, Subpart D, states that the Department, a pass-through entity, is responsible for:

- Monitoring subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

- Ensuring required audits are performed and requiring the subrecipients to take prompt corrective action on any audit findings.

- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

The Department passed through almost $187 million to approximately 450 subrecipients (excluding other state agencies) during Fiscal Year 1998. The Department's primary method of monitoring a subrecipient's compliance with federal requirements involved obtaining the subrecipient's Single Audit Report and evaluating any findings contained therein. Prior to the Amendments, government entities that received more than $100,000 in federal funds were required to have an annual audit in compliance with the Single Audit Act. However, the Amendments raised the threshold for requiring a Single Audit to $300,000. As a result, some entities to which the Department passes federal funds may no longer be required to have an annual Single Audit performed. The Department has not yet determined the number of entities who no longer meet the Single Audit threshold.

When a Single Audit Report is not required, a pass-through entity must perform other procedures in order to obtain reasonable assurance that the subrecipient is administering federal awards in compliance with federal requirements. Procedures that may be performed include:

- Reviewing subrecipient grant reports and other documents.
- Conducting site visits to review financial and programmatic records and to observe operations.
- Arranging the performance of agreed-upon procedures of certain areas.

The selection of one or more of the procedures above should be made in light of the size of the subaward to the subrecipient, the experience of the subrecipient, the complexity of the compliance requirements, and the cost of the monitoring procedures.

The Department has not developed a formal plan that incorporates the procedures discussed above for monitoring each of its subrecipients. Without such a plan in place, the Department cannot obtain reasonable assurance that subrecipients are administering federal awards in compliance with federal requirements. We recommend that the Department develop a formal plan for monitoring each of its subrecipients.

Recommendation No. 6:

The Department of Education should strengthen its internal controls over subrecipient monitoring by:

a. Determining which of its subrecipients are no longer subject to Single Audit requirements.

b. Developing a formal plan for monitoring each subrecipient, particularly those that are no longer subject to the requirements of an annual Single Audit.

Department of Education Response:

Agree. For Fiscal Years 1998 and 1999, the Grants Unit will use information submitted by districts and BOCES (Boards of Cooperative Education Services) on their CDE 3 reports to determine which local education agencies (LEAs) fall below the audit threshold. Those LEAs will be requested to submit additional documentation, if appropriate, to determine whether all expenditures were allowable under the specific grant fiscal requirements.

Once all districts and BOCES have successfully transmitted their financial data using the new chart of accounts, the Grant Unit and School Finance Unit will begin working with a pilot group of district/BOCES business managers and grants managers to determine what, if any, changes need to be made to the information currently submitted to assure that the new chart of accounts provides adequate information to the Department to review their federal expenditures in a more comprehensive manner. This process will be in place with the submission of Fiscal Year 2000 reports.

Department of Health Care Policy and Financing

Introduction

The Department of Health Care Policy and Financing (DHCPF) was created as part of the restructuring of state departments under HB93-1317 effective on July 1, 1994, or the beginning of Fiscal Year 1995. The Department is the state agency responsible for administering the federal Medicaid program, the federal program designed to provide health services to eligible needy persons. DHCPF contracts with the Department of Human Services for some services, such as determining individuals' eligibility for Medicaid services. The Medicaid grant is the largest federal program administered by the State and is funded approximately equally by federal and state general funds. In Fiscal Year 1998 the Medicaid caseload was approximately 258,800, representing a decline from the previous year of about 3.8 percent. During Fiscal Year 1998 the Department expended almost $1.67 billion and had 146 full-time-equivalent staff (FTE), compared with $1.59 billion in expenditures and 133 FTE in Fiscal Year 1997.

During Fiscal Year 1998 the Department also worked on developing an expanded children's health insurance program for children through 18 years of age as authorized by HB97-1304, referred to as the Children's Basic Health Plan. In October 1997 the Department submitted the State's plan for children's health insurance to the federal government in order to obtain federal funds for these types of programs under the new federal Title XXI, the Children’s Health Insurance Program.

The public accounting firm of Ernst & Young, LLP, performed the audit work at DHCPF as of and for the fiscal year ended June 30, 1998. During its audit Ernst & Young reviewed and tested DHCPF's internal controls over accounting and administrative functions and federal programs, including compliance with state and federal laws and regulations.

Obtain Approval for Cost Allocation Plan

See Recommendation No. 1 in Section II titled Financial Statement Findings.

Department of Higher Education

Introduction

The Department of Higher Education was established under Section 21-1-114, C.R.S., and includes all public higher education institutions in the State. It also includes the Auraria Higher Education Center, the Colorado Advanced Technology Institute, the Colorado Commission on Higher Education, the Colorado Council on the Arts, the Colorado Student Loan Division, the Colorado Historical Society, and the Division of Private Occupational Schools.

The State has 25 public institutions of higher education that are governed by six different boards. The governing boards and the schools they oversee are:

- **Board of Regents of the University of Colorado**
  University of Colorado at Boulder
  University of Colorado at Colorado Springs
  University of Colorado at Denver
  Health Sciences Center

- **State Board of Agriculture - Colorado State University System**
  Colorado State University
  Fort Lewis College
  University of Southern Colorado

- **Trustees of the State Colleges of Colorado**
  Adams State College
  Mesa State College
  Metropolitan State College of Denver
  Western State College

- **State Board for Community Colleges and Occupational Education (SBCCOE)**
  13 Community Colleges

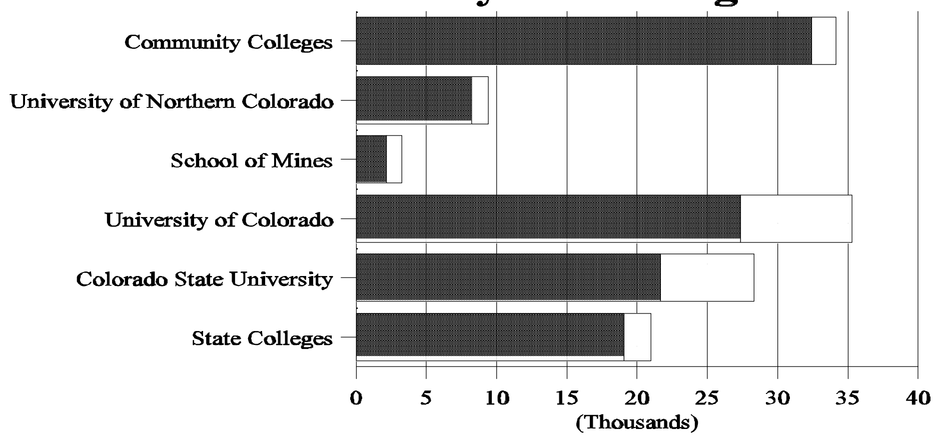
- **Trustees of the University of Northern Colorado**
  University of Northern Colorado

- **Trustees of the Colorado School of Mines**
  Colorado School of Mines

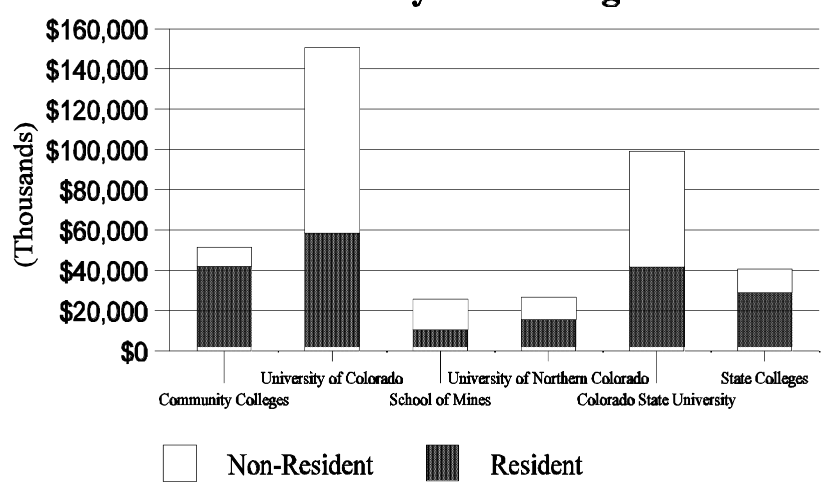
The following graphs depict comparative data between the governing boards of the State's colleges and universities.

Fiscal Year 1998

State of Colorado College & University FTE Enrollment by Governing Board



Tuition Revenue for Colorado Colleges and Universities by Governing Board



Source: 1998 Appropriations Report produced by the Joint Budget Committee.
Tuition revenue is based on number of enrollees and average tuition per governing board.

Colorado Student Loan Division

The Colorado Student Loan Program (CSLP), which is administered by the Colorado Student Loan Division, helps Colorado residents obtain financing for higher education. Created by a June 1979 Colorado Legislative Act, the CSLP guarantees students loans made by private lenders in accordance with federal regulations. Private lending entities include banks, savings and loan associations, pension funds, credit unions, and insurance companies. The mission of CSLP is to provide students access and choice regarding post-secondary education by ensuring the availability of educational financing.

The following comment was prepared by the public accounting firm of Bondi & Co., who performed work at the Colorado Student Loan Division.

Improve Internal Reconciliation Procedures for Defaulted Loan Payments

When CSLP receives a payment on a defaulted loan, they are required to report this information to the U. S. Department of Education within 45 days of receipt. They report this information on the 1189 report which is sent to the U. S. Department of Education on the first of every month.

During our testing of payments after default, we identified 2 payments received, out of the 20 selected for testing, which were not reported on the 1189 report. The amount the Division remitted on a monthly basis to the U. S. Department of Education was underestimated for payments on these claims. The U. S. Department of Education requires remittance of all payments received on defaulted loans monthly. The Division was not in compliance with the reporting requirements.

This occurred due to a system conversion approximately seven years ago that did not transfer all claims correctly. Some of the defaulted loan accounts were not included in the parameters of selecting payment information to report to the U. S. Department of Education. Some accounts which existed prior to 1988, were not being flagged to include the payment as part of the Division reinsurance amount.

The Division underreported payments on 474 defaulted claims they identified as not being included in the reinsurance amount reported to the U. S. Department of Education. The amount of principal and interest payments received since 1984 totaled $650,825.85, from April 1984 through the current period.

In July 1998, the Division developed a report to identify the claims not being remitted to the U. S. Department of Education on their system. The Division reported the amounts to the U. S. Department of Education at the end of July 1998. No additional corrective action is necessary at this time. Programming changes have been made to the system to accurately identify and report all claim payments on defaulted loans. The Division now reports these amounts to the U.S. Department of Education monthly.

Recommendation No. 7:

The Colorado Student Loan Division should re-examine its internal reconciliation procedures to develop a system to prevent this type of error occurring in the future.

Colorado Student Loan Division Response:

Agree. After it was discovered that there were claims paid that erroneously showed no reinsurance received, a report was developed to show all claims on the system that should have been updated with reinsurance, but are showing no reinsurance received. This report will be run quarterly to ensure that all claims have been properly updated to show reinsurance has been received and all payments have been properly reported to the Department of Education on form 1189. The Division also currently performs, and has performed since 1989, a monthly reconciliation of reinsurance received and reinsurance posted on its guarantee system to ensure that all claim accounts are updated with reinsurance when reinsurance is received.

Board of Regents of the University of Colorado

The Board of Regents is constitutionally charged with the general supervision of the University and the exclusive control and direction of all funds of and appropriations to the University, unless otherwise provided by law. The University consists of four campuses: Boulder, Health Sciences Center, Denver, and Colorado Springs, as well as central administrative offices. Within the four campuses, 16 schools and colleges offer more than 140 fields of study at the undergraduate level and 100 fields at the graduate level.

University of Colorado

The University of Colorado was authorized on November 7, 1861, by the Act of the Territorial Government. When Colorado became a state in 1876, the University was declared an institution of the State of Colorado.

The following comment was prepared by the public accounting firm of KPMG LLP, who performed work at the University of Colorado.

Procedures to Calculate Student Financial Aid Refunds at Boulder Should Be Followed and Monitored

See Recommendation No. 2 in Section II titled Financial Statement Findings.

State Board of Agriculture

The State Board of Agriculture has control and supervision of three distinct institutions: Colorado State University – a land-grant university; Fort Lewis College – a liberal arts college; and the University of Southern Colorado – a regional university with a polytechnic emphasis. The Board is also responsible for the Colorado State University Agricultural Experiment Station, the Cooperative Extension Service, and the Colorado State Forest Service.

The Board administers the State Board of Agriculture Fund located at the State Treasury. The Board is authorized to fix tuition, pay expenses, and hire officials. The chief academic and administrative officers are the Chancellor of the Colorado State University System and the President of each institution.

Colorado State University System

Colorado State University, Fort Lewis College, and the University of Southern Colorado have been consolidated as a single financial reporting entity – the Colorado State University System (CSUS).

Fort Lewis College

The following comment was prepared by the public accounting firm of Chadwick, Steinkirchner, Davis & Co., who performed work at Fort Lewis College.

Federal Pell Grant Program (CFDA No. 84.063)

See Recommendation No. 3 in Section II titled Financial Statement Findings.

University of Southern Colorado

The following comments were prepared by the public accounting firm of Baird Kurtz & Dobson, who performed work at the University of Southern Colorado.

Efficiencies and Technical Improvements to the Perkins Loan Fund Accounting

The Perkins Loan Fund (Perkins) is a fund established at the University for the purpose of providing loans funded by the U.S. Department of Education (CFDA #84.038) and the State of Colorado. Students with financial need are awarded loans from the fund and are required to repay the loans upon separation from the University after a nine-month grace period. As of June 30, 1998, there were Perkins loans outstanding totaling $3,715,828. During 1998 the University disbursed 526 Perkins loans totaling $656,068. The U.S. Department of Education requires certain procedures to be followed by all institutions accepting federal Perkins dollars. If these procedures are not followed, the University risks losing these federal funds to support student attendance. Our audit procedures included testing 30 Perkins loans. We noted the following:

- For six of the students tested, the calculation of the nine-month grace period was not proper. It appears these errors are occurring due to tentative graduation dates being entered into the system versus entering actual graduation/separation dates.

- The University procedures allow employees to change the borrower status manually (i.e., in school, grace, repayment, deferment, etc.). The University does not have a procedure to review or approve changes made to the borrower status.

Recommendation No. 8:

The University of Southern Colorado should improve the process for Perkins loans to make it more efficient and to ensure compliance with U.S. Department of Education requirements as follows:

a. The University should review the current process of changing borrower status and implement changes to effectively and efficiently keep borrower information current and accurate.

b. A system-generated comparison should be utilized to determine that all students reported as in school are registered for classes at the University or meet other eligibility requirements. This would ensure that tentative dates are updated in a timely manner.

University of Southern Colorado Response:

Agree. Existing practices for management of borrower records will be reviewed in order to prevent the occurrence of future errors. Additionally, the University will pursue development of an electronic interface between the Records Office information system and the Perkins Loan program management software to address accuracy issues in recording graduation/separation dates.

Timely Updating of Student Separation Dates

One of the compliance requirements for the Federal Family Education Loan Program (FFELP) (CFDA #84.032) is that guarantors be notified within 60 days of a student's separation from the University. We tested the notification of FFELP guarantors or lenders. We selected 20 students for testing out of a population of 499 graduating or separating from the University. We noted that following instances where the guarantors were not notified within 60 days as required by federal regulations:

- One student graduating December 12, 1997, and one graduating May 1, 1998 did not have guarantor notification.

- Five students graduating December 12, 1997, had guarantor notification, but did not meet the 60-day requirement for notification.

In each of these instances, separation information was not updated in University files.

Recommendation No. 9:

The University of Southern Colorado should improve the process for updating the student separation files to ensure timely compliance with federal regulations requiring notification to guarantors.

University of Southern Colorado Response:

Agree. The University will post graduation/separation dates in a timely manner.

Improper Pell Award

See Recommendation No. 4 in Section II titled Financial Statement Findings.

State Board for Community Colleges and Occupational Education

The State Board for Community Colleges and Occupational Education was established by "The Community Colleges and Occupational Education Act of 1967," Title 23, Article 60 of the Colorado Revised Statutes. The Board functions as a separate entity and, as such, may hold money, land, or other property for any educational institution under its jurisdiction. The statute assigns responsibility and authority to the Board for three major functions:

- Governing the State's system of community and technical colleges.

- Administering the occupational education programs of the State at both secondary and post-secondary levels.

- Administering the State's program of appropriations to local district colleges and area vocational schools.

Community Colleges and Occupational Education System

The 13 colleges in the Colorado Community Colleges and Occupational System (CCCOES) include Arapahoe, Aurora, Denver, Front Range, Lamar, Morgan, Northeastern Junior, Otero, Pikes Peak, Pueblo, Red Rocks, and Trinidad, and the Colorado Electronic Community College.

Trinidad State Junior College

The following comment was prepared by the public accounting firm of Arthur Andersen LLP, who performed work at the CCCOES.

Financial Aid Eligibility

To be eligible for Title IV Financial Aid a student must have, per Federal Regulation 668.32, a high school diploma, its recognized equivalent, or obtained within 12 months before the date the student initially receives aid, a passing score on an approved independently administered test. As a result of eligibility testing for financial aid at Trinidad State Junior College (TSJC) it was determined that 3 out of the 52 students reviewed were issued Pell Grants, CFDA # 84.063, without meeting the above requirement. Following our testing, the amounts awarded to the three students which were ineligible for Title IV Financial Aid totaling $4,400, were, as required, refunded to the Secretary, U.S. Department of Education, per regulation section 668.95. TSJC had 1,115 students which received Pell Grants in Fiscal Year 1998.

Recommendation No. 10:

Trinidad State Junior College should develop a checklist that identifies all eligibility requirements. The checklist should be completed for each applicant before they are approved for financial aid and the funds are disbursed. In addition, Trinidad State Junior College should review the files for the remaining students which received Pell Grants in Fiscal Year 1998 to ensure they met all eligibility requirements under Federal Regulation 668.32.

Trinidad State Junior College Response:

Agree. The College will review each student's response to the financial aid question for information on their high school diploma. Follow-up will be done to be sure that all students meet the requirements for financial aid eligibility.

Trustees of the University of Northern Colorado

The Board of Trustees is the governing body of the University of Northern Colorado and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms; one faculty member elected by the faculty; and one student member elected by the student body.

University of Northern Colorado

The University of Northern Colorado seeks to provide all students with a broad general education as well as preparation of selected professions within the fields of business, education, health services, music, and related areas. Historically, a principal emphasis has been preparing students for careers in education.

The following comments were prepared by the public accounting firm of Anderson & Whitney, P.C., who performed work at the University of Northern Colorado.

Review Calculations of Federal Grant Matching

Some incorrect computations, totaling $4,056, were seen in the calculations of University funds used to match federal grants (CFDA 47.076), although the University met the overall matching requirement for the grant. We also noted $4,000 of University student fees which were charged to programs for participants. OMB Circular A-21 does not allow “student activity costs” to be charged to federal programs or used as match, unless specifically provided for in the sponsored agreement.

Recommendation No. 11:

The University of Northern Colorado should add further review procedures to the computation of federal grant match and discontinue charging student fees to federal programs or using them as match.

University of Northern Colorado Response:

Agree. The University will review all computations of federal grant match and will discontinue charging student fees to federal programs or using them as match. Implemented, October 1998.

Refine Refund and Repayment Policies

See Recommendation No. 5 in Section II titled Financial Statement Findings.

Trustees of the Colorado School of Mines

The Board of Trustees is the governing body of the Colorado School of Mines and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms, and one nonvoting student member elected by the student body.

Colorado School of Mines

The Colorado School of Mines was founded on February 9, 1874. The primary emphasis of the Colorado School of Mines is engineering, science education, and research. The authority under which the School operates is Article 40 of Title 23, C.R.S.

The following comment was prepared by the public accounting firm of Deloitte & Touche LLP, who performed work at the Colorado School of Mines.

Federal Grants Are Not Closed Out in a Timely Manner

In the current year it was noted that there continues to be federal grant projects which are closed late. As a result, the Colorado School of Mines is not in compliance with federal reporting requirements which could jeopardize future federal funding. This was a recommendation also made in the prior year. Federal financial reporting requirements state that close-out of projects (both contractual and financial obligations) must be submitted within 90 days of project completion. It was noted, however, that Colorado School of Mines is making a concerted effort to timely close these projects and is making substantial progress on closing the older grant projects which continues to be a problem.

It was noted that of the 280 total projects closed as of June 30, 1998, 245 of those projects were closed late. Over 86 percent of them related to grant projects which had a project end date prior to June 30, 1997, and approximately 14 percent had project end dates for the current fiscal year. Also, through review of those projects late for close-out on the pending closures listing, it was noted that there were 120 projects already late for close-out. Over 79 percent of the projects relate to grant project end dates prior to June 30, 1997, and approximately 21 percent related to projects with end dates in the current fiscal year. The Department has been able to implement many planned controls that have proven to be effective. However, the timely return of documents from the Principal Investigator's and receipt of payment from the sponsoring agencies continues to delay the close-out procedures. Also, for those projects which are very old, it is very difficult to locate a contact.

Recommendation No. 12:

Colorado School of Mines through the Office of Research Services should continue to implement the procedures and controls necessary to ensure that all close-out reports and reimbursement requests are submitted as quickly as possible following the completion of a project. The Office of Research Services should concentrate on closing older projects without jeopardizing the timely close-out of current projects.

Colorado School of Mines Response:

Agree. Fiscal Services and the Office of Research Services (ORS) have been diligently working in a coordinated effort to realize continued improvement in the timeliness of project close outs. New forms (memos) and other internal documents have been successful in enhancing the exchange of necessary information between the Principal Investigator, ORS, and Fiscal Services. Additionally, in the current year, a staff person has been assigned full-time to handle the payment problems and close out issues with the sponsoring agencies. Continuation of these efforts will ensure that the backlog of older projects is closed without sacrificing the timely closure of current projects.

Department of Human Services

Introduction

The Department of Human Services was established in July 1994 to administer, manage, and oversee the delivery of human services throughout the State. It accomplishes this through a variety of state-operated facilities and programs, county-operated programs, and contractual arrangements with public and private human service providers across the State. In Fiscal Year 1998 the Department expended approximately $1.2 billion and had 4,272.8 full-time-equivalent staff (FTE).

The Department comprises ten major offices, five of which perform administrative functions such as budgeting, human resource management, development and maintenance of information systems, operations and fiscal management, and oversight of relations with external entities such as constituency groups, the General Assembly, and other state and local agencies. The remaining five offices are responsible for overseeing or operating a wide spectrum of programs and services such as welfare reform and public assistance, vocational rehabilitation and mental health services, child welfare, aging and adult services, drug and alcohol treatment and rehabilitation, developmental disability services, and subsidized child care and child care licensing. The Department also operates the State's youth corrections system and is responsible for a number of 24-hour-care facilities. These include two state mental health institutes, five state and veterans nursing homes, and three regional centers for persons with developmental disabilities.

Generally, we found that the Department has adequate administrative and internal controls in place to oversee its operations and meet state and federal requirements. We identified five areas where improvements could assist the Department in effectively managing its responsibilities.

Implement On-Site Monitoring of County TANF Activities

In 1996 Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), was signed into federal law as part of reforming the national welfare system. As part of this act the former Aid to Families With Dependent Children (AFDC) program was replaced by the Temporary Assistance for Needy Families (TANF) program. All states were required to have a plan for TANF implementation approved and the program in place by July 1, 1997, or the beginning of state Fiscal Year 1998. In Colorado, TANF was established as the "Colorado Works" program.

In Fiscal Year 1998 the Department expended over $190 million in federal financial assistance and state general funds for the operation of TANF. TANF was one of the largest federal grants administered in Colorado in Fiscal Year 1998, ranking sixth overall in terms of expenditure levels. The TANF program is overseen by the Department's Office of Self-Sufficiency and administered locally by the county departments of social services.

Memorandums of Understanding (MOUs) Place New Responsibilities with the Counties

Colorado has taken a unique approach among states in how it has chosen to implement TANF. While the State has traditionally maintained a welfare system in which the counties rather than the State administered the program, under welfare reform the State has made further efforts to pass significant amounts of responsibility to the county level. In recognition of this, the Department and the counties entered into performance contracts, or MOUs, that outline the responsibilities of both parties for the administration and implementation of TANF.

Under the MOUs counties continue to be solely responsible for determining recipients' eligibility and the amount of benefits they will receive, as well as for maintaining adequate records. This equates to control of approximately $140 million in TANF benefit payments for Fiscal Year 1998. In addition, the counties are now responsible for meeting key new requirements that are part of welfare reform. Specifically, counties must monitor their expenditures and ensure that certain levels are met; these are referred to as "maintenance of effort" requirements. Counties also must achieve target work participation rates among TANF participants. For federal Fiscal Year 1998, these rates were 30 percent for all families and 75 percent for two-parent families. The work requirements will increase to 35 percent and 90 percent, respectively, for federal Fiscal Year 1999.

At the state level, the Department of Human Services is responsible for overseeing the implementation of TANF. The Department is also the entity ultimately responsible to the U.S. Department of Health and Human Services for ensuring that the State as a whole properly administers the TANF program and meets federal requirements such as maintenance of effort and work participation rates. Because of the level of responsibility vested with the counties, the Department must monitor county activities in order to meet its responsibilities.

Department Has Not Conducted On-Site Reviews of Counties Under TANF

Prior to Fiscal Year 1997 the Department routinely conducted on-site reviews of county activities for the AFDC program. In this manner the Department determined compliance with state and federal regulations regarding applicants' eligibility, allowability of expenditures, timeliness of application screening and acceptance, file documentation, and related county procedures. Department staff discontinued the AFDC reviews at the beginning of Fiscal Year 1997 because of the efforts needed to meet the major changes under federal welfare reform that were to be implemented at the beginning of Fiscal Year 1998. Throughout Fiscal Year 1997 staff were involved in developing the Colorado Works program and assisting counties in planning for the transition to TANF.

During Fiscal Year 1998, the first year of TANF operations, we found that the Department had not developed and implemented an on-site review process for overseeing the counties' implementation and administration of TANF. Staff reported that efforts were still being directed toward completing program implementation. Instead, the Department monitored county activities by reviewing reports generated from its information system that contains county self-reported data. While the system contains controls preventing some erroneous data from being entered, the Department still needs to ensure that data reported by the counties are appropriately and accurately entered and are therefore a valid representation of county TANF activities. Thus, reviewing county reports is not a sufficiently reliable form of subrecipient monitoring in terms of determining program compliance.

Federal regulations identify various factors for determining the risk of noncompliance with program requirements. One such factor that can indicate higher risk is an instance in which a new program with significant legal and regulatory changes has been implemented. TANF is currently an example of this type of situation. Therefore, it is important that the Department has a reliable and effective method for monitoring county activities. We also noted that the Department has maintained on-site county monitoring practices for the Food Stamp program, although this program has been largely unaffected by welfare reform.

Better Monitoring Could Help Ensure Goals Are Met

The importance of monitoring county TANF activities is underscored by the fact that the State as a whole will be held accountable for meeting federal requirements such as maintenance of effort and work participation rates. If the Department does not identify problems and help the counties to address them, the State could be at risk of failing to meet statewide targets and could face federal sanctions.

The Department and the counties have made a concerted effort to put into place the new structures and requirements under welfare reform. By developing an on-site review process, the Department can further identify ways to assist the counties in their key roles under TANF and the Colorado Works program. This will help ensure that state and federal requirements are met at both the local and statewide level.

Recommendation No. 13:

The Department of Human Services should develop and implement a formalized plan for on-site monitoring of county activities for the Temporary Assistance for Needy Families (TANF) program to ensure that federal and state requirements are met.

Department of Human Services Response:

Agree. The Department of Human Services intends to begin on-site monitoring in regards to the TANF Program. The process is to be developed and in place to begin by July 1, 1999.

Implementation date: July 1, 1999.

Improve Efforts in Cash Management Area

In Fiscal Year 1998 the Department administered 83 federal programs for which it expended $515.1 million in federal funds. The Department is responsible for tracking expenditures and earned revenues for these programs, as well as related receivables from the federal government. The Department operates on a reimbursement basis with the federal government for its grants. This means that it uses state general funds to make federal program expenditures and then requests reimbursement from the federal government for the appropriate federal share of the expenditures. The federal Cash Management Improvement Act (CMIA) requires that a state request the transfer of federal funds as close as possible to the time the state expends funds for the program. This is required in order to ensure that neither the federal government nor the state realizes an unfair financial advantage from use of the other entity's funds.

Department's Oversight of Federal Receivables Has Improved

During our Fiscal Year 1997 financial audit we identified areas for improvement within the Department's cash management area. Specifically, we found that the Department should develop a more comprehensive fiscal management system for federal programs in three areas. The Department needed to:

- Designate a central point of responsibility for federal grant management.
- Implement an integrated monthly reconciliation process encompassing all program-related financial grant activity.
- Institute a process that would enable them to identify the amount and timing of cash draws and to track information linking specific disbursements to cash draws and cash receipts.

We found that the Department made noticeable improvements to its fiscal management system for federal programs during Fiscal Year 1998 that allowed them to address these three concerns.

Electronic Benefit Transfer (EBT) Service Implementation Has Increased Demands on Cash Management Process

While the Department demonstrated significant efforts in improving its process for federal cash management, we noted that the Department's implementation of a new system for delivering welfare and public assistance payments during Fiscal Year 1998 had a significant impact on these efforts. Specifically, this new system, EBT, substantially changed the way in which disbursements related to federal programs are accounted for and recorded on the Colorado Financial Reporting System (COFRS), and as a result, affected the Department's process for determining appropriate cash draws.

Under EBT recipients access benefits for public assistance and welfare programs such as Temporary Assistance for Needy Families, Food Stamps, Low Income Energy Assistance, Old Age Pension, Aid to the Needy Disabled, and Aid to the Blind through the use of a debit card at a point-of-sale device or automated teller machine. The EBT service is also used to make direct deposit payments (electronic fund transfers) to providers under the Low Income Energy Assistance Program, child care, and child welfare programs. Approximately $320 million of the $515.1 million, or 62 percent, in federal grant expenditures were for programs administered through the EBT service in Fiscal Year 1998.

In Fiscal Year 1996 the Department awarded a contract to an outside fiscal agent to provide the delivery of EBT services in Colorado. On a daily basis, the fiscal agent, currently Citibank, reimburses vendors and owners of automated teller machines for benefits paid to public assistance and welfare recipients. The Department, in turn, reimburses the fiscal agent on a daily basis for the reimbursement payments it has made that day. This daily reimbursement method has resulted in additional demands on the Department's cash management process because the Department needs to request federal reimbursement more frequently than in the past in order to meet federal regulations.

Central responsibility for the Department's cash management process lies with its Program Accounting Section. The Program Accounting Section is responsible for tracking expenditures for federal programs and calculating resulting earned federal revenue and receivables. Program Accounting staff also ensure that appropriate cash draws for federal reimbursement are made in a timely manner. Information obtained from the Department's County Accounting Section drives this process. County Accounting staff are responsible in part for tracking and reconciling benefit amounts authorized for welfare recipients and reimbursement amounts paid to Citibank. This responsibility includes ensuring that amounts authorized and paid are recorded on COFRS.

As noted above, EBT requires the Department to request federal reimbursement more frequently than in the past. In order to do this, Program Accounting staff must have cash disbursement and program information on a daily or otherwise timely basis. However, the Department's existing accounting systems do not have the capabilities to track the appropriate level and type of information needed to determine the amount of federal cash draws that should be made for specific programs. Because of this, during much of Fiscal Year 1998 Department staff focused efforts on determining the best alternative process for estimating program expenditures and making timely draws. As a result, we found that the Department had some difficulty in managing its cash flows during the year.

Cash Draws of Federal Funds Were Not Made Timely

We also noted that the Department's methodology does not allow it to link specific disbursements to cash draws and cash receipts as required by federal CMIA regulations. More notably, this approach resulted in draws for three EBT programs being made up to a month after state general funds were used to make the original payments to Citibank.

We calculated the potential interest lost to the State due to the Department's late draws of federal funds for payments made to Citibank. Because we were unable to link a number of specific disbursements to cash receipts, we often could not determine the exact lag between the Department's payments and cash receipts. However, we estimated that if the Department drew federal funds ten business days late for three of its EBT programs (Temporary Assistance for Needy Families, Child Care Development Fund, and Low Income Energy Assistance), the State could have lost approximately $107,000 in interest during the second half of Fiscal Year 1998. Since staff were focusing efforts reorganizing the Department's fiscal management function during the first half of Fiscal Year 1998, we did not include that time period in our estimate.

Timely Draws Will Assist With Overall State Cash Management

The Department plans to implement a new internal financial system for reimbursing county departments of social services, the County Financial Management System, during the first quarter of Fiscal Year 2000. Staff believe that this system will assist them in determining the appropriate breakdown of expenditure levels by program in a timely manner, and thus permit them to make daily cash draws from the federal government.

Recommendation No. 14:

The Department of Human Services should continue efforts to improve its fiscal management system for federal programs by:

a. Implementing a method for identifying payments made for Electronic Benefit Transfer (EBT) programs by grant, requesting appropriate cash reimbursement in a timely manner, and tracking information linking specific disbursements to cash draws and cash receipts.

b. Ensuring that future changes that affect its cash management and accounting process are included in planning efforts and incorporated into the overall grant management process.

Department of Human Services Response:

a. Agree. The Department plans to implement this recommendation by the statewide implementation of a new County Financial Management System

(CFMS) on July 1, 1999. The CFMS System will determine the program expenditures and calculate the federal revenue on a daily basis. This information will be fed to COFRS, which will set in motion the daily cash draw process.

In addition, the Department recognized the cash draw deficiency with the Legacy system and therefore began a procedure of estimating expenditures, revenue, and cash needed to meet CMIA requirements. As of this writing (January 29, 1999), the Department plans to implement CFMS on July 1, 1999. However, we would like the implementation date of this recommendation to be March 31, 2000, to give us a chance to work out any implementation problems.

Implementation date: March 31, 2000

b. Agree. The planning efforts for the new CFMS System address the cash management concerns identified in this audit recommendation. The Department recognized this problem, but the resources required to fix the Legacy system were not available. Since the Department was committed to developing a new CFMS System, resources were directed to developing CFMS rather than significant efforts required to fix the Legacy system.

Implementation date: March 31, 2000

Strengthen Monitoring of Subrecipients

In Fiscal Year 1998 the Department expended over $515.1 million in federal awards. Of this, $427.9 million, or about 83 percent, was passed through to approximately 1,000 subrecipients. Federal regulations designate primary recipients such as the Department of Human Services as the principal agency responsible for ensuring federal program requirements are met.

The Department employs various means to ensure funds are spent appropriately. These include such activities as on-site program and fiscal reviews and, in some cases, statistical monitoring. Federal regulations also require that the Department obtain and review the annual audit reports of subrecipients that expend $300,000 or more in federal awards during their fiscal year and follow up on instances of noncompliance to ensure corrective action is taken. Subrecipients with this level of expenditure must have an annual audit in compliance with federal requirements under the Office of

Management and Budget Circular A-133. Audits performed under Circular A-133 include specific testing and reporting related to federal programs.

The Department has designated the Field Audits Section as the unit responsible for ensuring that subrecipients send the appropriate audit reports to the Department. The Section is also primarily responsible for performing the review of audits required under Circular A-133. In some cases Field Audits is assisted in this function by personnel from other areas of the Department.

The Department Needs to Improve Method to Identify Subrecipients

During our Fiscal Year 1996 audit we noted that the Department was adequately monitoring annual audit reports from the counties, which received about 80 percent of the federal funds passed through to subrecipients by the Department during that period. However, we found that the Department did not have a clear process for identifying all of its other subrecipients and ensuring that these entities also completed and submitted the necessary audits. In addition, the Department did not review audit reports submitted by those entities that received federal pass-through funds from its Alcohol and Drug Abuse Division (ADAD).

In Fiscal Year 1997 the Department worked to clarify procedures for identifying all appropriate subrecipients, and it completed reviews of audit reports from ADAD subrecipients. However, in Fiscal Year 1998 the Department had not yet finalized a means of identifying all subrecipients other than the counties. If entities receiving $300,000 or more in federal funds cannot be identified, the Department cannot ensure that it is obtaining and reviewing all appropriate audit reports and following up on possible noncompliance. In addition, in Fiscal Year 1998 the Department did not complete its review process of audit reports from ADAD subrecipients that expended $300,000 or more in federal funds.

Department's Subrecipient Monitoring Should Consider County Reporting Under EBT

The Department also needs to consider the manner in which the counties report cash benefits paid to welfare recipients under EBT service in determining the nature and extent of departmental subrecipient monitoring activities. The manner in which counties report cash benefits under EBT could have an impact on the amount of audit work related to federal programs performed by the counties' independent auditors during the annual audits. The Department relies on these audits as one means of monitoring county compliance with state and federal requirements.

Prior to the implementation of EBT, counties reported the federal share of cash benefit payments on their Schedule of Expenditures of Federal Awards (Schedule), as well as federal monies received for other purposes such as program administration. The Schedule must be included as part of an entity's annual audited financial statements if the entity expends $300,000 or more of federal funds during its fiscal year.

EBT was implemented across the State from February 1997 through February 1998, and under this new system the state and federal share of public assistance cash benefits no longer flows through county bank accounts; instead, recipients access benefits through the banking system by using debit cards. If counties do not report the federal share of EBT payments on their Schedules of Expenditures of Federal Awards, the counties will reflect significantly lower levels of federal assistance. In one county, for example, we estimated federal EBT cash benefits would have accounted for over 40 percent of the county's federal assistance if the county had been on EBT for the entire fiscal year.

The level of federal expenditures reported by a county is important because the counties' independent auditors use the level of federal expenditures as a major factor in determining the amount of audit work related to federal assistance they will complete during the annual county audits. If counties report lower levels of federal assistance, CPA firms may decrease the amount of testing related to compliance for federal program requirements. Therefore, the Department needs to be aware of whether or not a county is including the federal share of EBT cash benefit payments on its Schedule and assess the need for additional follow-up and monitoring.

It is important for the Department to have adequate monitoring in place for counties because counties continue to administer the federal public assistance programs by determining recipients' eligibility and amount of benefits, and the counties are responsible for meeting the objectives of federal programs. As noted earlier, the Department is responsible for ensuring that subrecipients use federal funds in a manner consistent with authorized purposes and in compliance with federal requirements.

County Reporting Under EBT Is Not Consistent

We reviewed a sample of ten county audit reports for the year ending December 31, 1997, for counties that had implemented EBT during 1997. We found that five counties did not disclose whether or not they reported the federal share of EBT cash benefit payments on their Schedule. Therefore, it was not possible to determine the manner in which EBT cash payments were reported on the Schedule. Out of the five that disclosed the manner of treatment, one county reported it had excluded the federal share from its Schedule, and the other four reported that the Schedule included the federal share of EBT cash benefit payments.

Professional guidance has not been issued regarding reporting of EBT payments in the type of situation encountered by the counties, where the cash flow no longer mirrors the level of administrative responsibility. Until such guidance is issued, it is appropriate for the counties to report the federal share of EBT cash payments on county Schedules because the counties continue to administer the related federal programs. In addition, counties need to disclose the reporting treatment used for these payments on both the financial statements and the Schedule.

The Department has communicated to the counties during various EBT training sessions that it supports this manner of reporting by the counties. If the counties do not handle EBT reporting matters consistently and disclose their practices, the usefulness of county annual financial reports is decreased because reporting for EBT cash benefits is not consistent among counties. Further, the reader may not be aware of the lack of comparability because related disclosures are not included in the reports.

Department Needs to Ensure Subrecipient Compliance With Federal Audit Requirements

The purpose of identifying subrecipients and performing reviews of their annual audits is for the Department to meet its responsibility to ensure that problems with the administration of federal programs identified by the subrecipients' auditors are followed up on and resolved. While the Department is fulfilling this responsibility for the majority of federal funds that it oversees, additional effort is needed to ensure that all subreceipients are identified and that required audit reports are received and reviewed, including those for ADAD. In addition, the Department's monitoring activities should take into consideration the possible impact of changes in reporting of federal expenditures under EBT and potential lessening of compliance work performed during county annual audits.

Recommendation No. 15:

The Department of Human Services should ensure that federal audit requirements for subrecipients of federal awards are met by:

a. Identifying subrecipients that receive $300,000 or more in federal awards from the Department.

b. Obtaining and reviewing all required audit reports and following up on instances of noncompliance as needed.

c. Determining whether the federal share of Electronic Funds Transfer (EBT) cash payments is appropriately included in county Schedules of Expenditures of Federal Awards.

d. Assessing and ensuring that departmental monitoring activities for counties are adequate under EBT, in cases where there may be a decrease in audit work performed on federal programs by independent auditors during county annual audits.

Department of Human Services Response:

a. Agree. The Department currently has databases that identify most of the subrecipients for the Department. County subrecipients are identified and tracked through the automated systems of Automated Personnel Payroll System (APPLS) and County Automated Payments System (CAPS).

   Subrecipients, other than counties, are identified and tracked through the COFRS GPP14 Report. This report does have some weaknesses which the Department will work to correct, as much as feasible, so that a more accurate listing will be available.

   Implementation date: Ongoing/September 1, 1999.

b. Agree. The Department does have a process for obtaining all audit reports and steps will be taken to ensure that the reports are reviewed and followed up on in a timely manner.

   Implementation date: Ongoing/March 1, 1999.

c. Agree. Currently EBT cash payment inclusion in the county Schedules of Expenditures of Federal Awards is determined in the cursory initial review and also in the subsequent in-depth review using the Field Audit Desk Review guidelines. Contact is made with counties that have not included the information. The Department will prepare a written policy for redistribution to county departments and Certified Public Accountants (CPAs) outlining the need for consistent disclosure of this information.

Implementation date: Ongoing/July 1, 1999.

d. Agree. The Department does assess and ensure adequate monitoring activities through the review identified in c. above; however, as noted, additional information will be sent to county departments and CPA firms emphasizing the need for full disclosure of EBT cash payments.

Implementation date: Ongoing/July 1, 1999.

Department of Public Health and Environment

Introduction

The Department of Public Health and Environment is authorized by Section 24-1-119(1), C.R.S. The Department is responsible for monitoring environmental quality, ensuring the quality of health services, and maintaining health data for the State. The mission statement states that the Department is "dedicated to protecting and improving the health and environment of the people of Colorado." The Department is organized into 12 major divisions:

- Health Facilities
- Emergency Medical Services and Prevention
- Disease Control and Environmental Epidemiology
- Family and Community Health Services
- Health Statistics and Vital Records
- Air Pollution Control
- Water Quality Control
- Hazardous Materials and Waste Management
- Consumer Protection
- Laboratory and Radiation Services
- Administrative Services
- Information Technology Services

For Fiscal Year 1998 the Department had an operating budget totaling in excess of $210 million. The Department was appropriated 1,082 full-time-equivalent staff (FTE) for Fiscal Year 1998.

The following comment was prepared by the public accounting firm of Johnson, Holscher & Company, P.C., who performed audit work at the Department of Public Health and Environment.

Expand Monitoring of Subrecipients

During Fiscal Year 1998 the Department expended $142.5 million for over 70 federal programs. The Department is required by federal guidelines to monitor subrecipients of federal awards passed through the Department. As part of our audit we reviewed the Department's monitoring process. Part of the monitoring process by the Department is to require audits of subrecipients who spend at least $300,000 in federal awards. We found that not all subrecipients requiring an audit may have been identified for two federal programs. The programs are the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and Immunization Grants (vaccines). We found that the Department is not including non-cash awards for these two programs as pass-through expenditures on the State's Schedule of Expenditures of Federal Awards. Instead, the Department has been including the assistance as direct expenditures. Proper classification is important for properly identifying subrecipients.

Since the money has not been identified as going to subrecipients in previous years, the Department may not have identified subrecipients that should have been included in the monitoring process. Therefore, non-cash federal expenditures may not have been properly audited as required under federal guidelines.

The WIC program provides supplemental nutrition needs to low-income women, infants, and children. The Department provides food vouchers to local health departments and nonprofit agencies throughout the State. These agencies then distribute the vouchers to eligible participants; for example, women meeting the qualifications for the program. The eligible participants then use the vouchers to purchase goods from local grocery stores. The stores are reimbursed by the State, and the State is reimbursed by the federal government. Although the local health departments and nonprofit agencies do not obtain money directly, they are considered subrecipients because they determine eligibility of the participants and administer the program. Expenditures for the WIC program during Fiscal Year 1998 were over $40 million.

The vaccine program assists the State in establishing and maintaining preventive health services to individuals in order to prevent disease. The Department provides vaccines to local health departments and private practitioners who provide vaccines to the public. These entities then administer the vaccines to individuals who qualify for the program. Eligibility is determined by the local health departments and practitioners. Therefore, these entities are considered subrecipients. Expenditures for this program were over $7.5 million for Fiscal Year 1998.

Recommendation No. 16:

The Department of Public Health and Environment should continue to improve its system of monitoring to determine that all subrecipients requiring audits are identified.

In addition, funds need to be properly classified on the Schedule of Expenditures of Federal Awards.

Department of Public Health and Environment Response:

Agree. The Department has revised its Fiscal Year 1998 Schedule of Federal Assistance to identify this non-cash assistance as pass-through expenditures. In addition, beginning in March 1999, we will begin reporting non-cash assistance for the food vouchers and vaccine programs to the subrecipients who received it. The Department believes that the majority of these subrecipients are already required to submit an audit under the requirements of OMB Circular A-133 and, therefore, have been properly audited. In addition, the Department performs extensive on-site monitoring of all subrecipients of food vouchers, under the administrative requirements of the federal Department of Agriculture, who administers the Women, Infants, and Children program. The Department also performs on-site monitoring of local health departments and private providers to ensure that the vaccines were provided to eligible patients only.

Department of Transportation

Introduction

The Colorado Department of Transportation is responsible for programs that impact all modes of transportation. Its operations are governed by the State Transportation Commission.

In Fiscal Year 1998 about one half of the Department's expenditures were related to construction funded by the Federal Highway Administration (FHWA) and state sales and use tax funds. Most of its other expenditures are funded by the Department's portion of the State Highway Users Tax Fund (i.e., the State Highway Fund) and various aviation-related taxes. The Department also receives monies from other federal agencies that it passes through to local governments and other entities for highway safety and transportation improvement programs.

The FHWA funds are used for research, planning, and construction of highways. The State Highway Fund pays for highway maintenance and operations and about 20 percent of any highway construction not covered by FHWA funds.

The following comments were prepared by the public accounting firm of Arthur Andersen, LLP, who performed work at the Department of Transportation.

Improve Effectiveness of Payroll Review Process for Prime Contractors and Subcontractors

Both prime and subcontractors are required to complete Colorado Department of Transportation payroll Form #118 for each pay period as long as they are engaged on a project. Form #118 is a compliance statement completed by prime and subcontractors, which includes a list of required items that have been performed relating to the pay period. This form serves as an attestation by the contractor that all required tasks relating to payroll have been completed and that in the event any exceptions arise, they are to be noted on this form. Subcontractors are required to submit payroll summaries to the prime contractor for review before they are passed on to Transportation's project engineers. Form #118 contains a completed employee payroll summary for the related pay period, which includes employees' names, addresses, social security numbers, hours worked, job classifications, and job code numbers. Project engineers are required to perform a 100 percent wage rate review of the first payroll submission for each contractor to ensure hourly rates are in compliance with the Davis-Bacon Act of 1931 (Davis-Bacon). Davis-Bacon is a law enacted to guarantee fair competition on federal and state construction projects by establishing prevailing minimum wage rates that must be paid to project workers. The initial project engineer review also requires the project engineers to evaluate the payroll submission for reasonableness based on the number of employees and the work performed. If the first payroll is in compliance with Davis-Bacon and reasonable, subsequent payrolls are reviewed simply for reasonableness. If the initial review is not in compliance with Davis-Bacon, additional payroll summaries are reviewed until the contractor has demonstrated compliance.

During the construction site visits, we noted the following:

- Discussions with Transportation project engineers revealed that prime contractors were not thorough in their review of subcontractor payroll submissions, which forces project engineers to spend unnecessary time identifying and correcting errors in these submissions.

- The first payroll receiving 100 percent review is generally small compared with subsequent payrolls occurring during peak activity. For example, the number of employees working on a project during the first pay period under review may be only 25 percent of the total employees working during peak activity. Thus, reviews by project engineers are not focused on the periods with the highest risk of error.

Prime contractors should be accountable for the submission of inaccurate payroll summaries. The Federal Highway Administration (FHWA) Form #1273, which outlines the provisions for federal-aid construction contracts, specifically requires the prime contractors to review all subcontractors' payroll submissions. FHWA Form #1273 sets forth federal-aid construction contract requirements related to Equal Employment Opportunity (EEO), and records for wages, payroll, materials, supplies, labor, and safety. This form also gives Transportation the authority to suspend payment of funds to a prime or subcontractor in the event they fail to comply with these payroll requirements. Through conversations with project engineers, prime contractors are not performing adequate payroll reviews, if any at all. This lack of review by prime contractors places an added unnecessary burden on the project engineers to ensure submissions are accurate. Current review requirements for project engineers are not focused on periods with the highest likelihood of error because they are not intended to be a substitute for the contractor reviews that should be occurring. If errors go undetected and work being performed under a contract is not in compliance with federal regulations, federal funds being provided to support the project may be withheld.

Recommendation No. 17:

The Department of Transportation should more actively enforce the contractor payroll review requirements and work with prime and subcontractors to train them in proper payroll procedures.

Department of Transportation Response:

Agree. Upon completion of the ongoing Program Quality Review, Staff Construction and Materials will target the areas revealing the most errors and tailor training to contractors accordingly. Financial disincentives will also be developed to emphasize the importance of monitoring subcontractors. Implementation is scheduled for March 31, 1999.

Conduct Required Construction Site Employee Interviews in a Timely Manner

Department of Transportation Form #280 is both an Equal Employment Opportunity (EEO) and labor compliance form. This form is used when interviewing employees of prime contractors and subcontractors in order to verify employees are aware of the company's EEO requirements and are receiving the correct wages for the classification in which they are working. The purpose of these interviews is for Transportation employees to verify whether contractors are meeting EEO labor compliance and Davis-Bacon wage requirements. The minimum number of interviews to be conducted is 10 percent of the prime and subcontractor's employees for each different job classification working on the project (e.g., pavers, surveyors, welders, etc.). Currently the only timeline established for performing these interviews requires that they be performed before the close of the project. Interviews not completed during the course of the project do not identify problems in a timely manner, which results in misclassified and incorrectly paid employees who are often difficult to locate and makes further evaluation of a problem difficult to perform.

Department of Transportation employees conducting Form #280 interviews are not required to have had any training or attain a specific job classification, and any Transportation employee present at the construction site may conduct interviews. The interviews and forms are completed at the project site and then forwarded to Transportation's Regional EEO representative for review. The Transportation EEO representative does not review completed #280 forms unless a complaint has been raised. If a dispute arises as a result of an interview, the EEO division is notified in a timely manner and is required to follow up on all reported violations, including investigating the possibility of additional violations relating to the dispute.

During construction site visits, we noted the following:

- Department of Transportation project engineers believed the interviews were to be conducted only if a complaint arose.

- Interviews and Form #280s were not a priority for project engineers; we noted five of the ten sites visited had not completed the forms at the time of our visit.

- The Form #280s were not being completed in a timely fashion and the employees selected were not from the various job classifications required.

- Responsibility for completion of the forms is not specifically assigned to either the EEO division or the project engineer and neither group clearly accepts the duty.

Early identification of instances of noncompliance with federal wage regulations will eliminate the time-consuming retroactive correction of these errors and minimize the likelihood of federal funds being withheld due to the lack of compliance with established regulations.

Recommendation No. 18:

The Department of Transportation should train project engineers in the purpose and requirements of the Form #280 and require its regional Equal Employment Opportunity (EEO) representatives to take an active role in monitoring the quantity, quality, and timeliness of forms that must be completed for each project.

Department of Transportation Response:

Agree. Staff Construction and Materials will include training on Form #280 during the annual Regional Support Programs conducted statewide. The Program Quality Review, noted above, should also identify information that will provide additional focus to this training effort. Implementation is scheduled for March 31, 1999.